



# **Internal Audit Report**

**Risk Management  
February 2003**



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# Maricopa County

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February 4, 2003

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Mary Rose Wilcox, Supervisor, District V

We have completed our FY 2003 review of the Maricopa County Risk Management Department. This audit was conducted in accordance with the Board approved audit plan. Our review focused primarily on the department's experience with fire evacuation drills, claims payment, and service procurement.

The highlights of this report include the following:

- County controls need to be strengthened over planning and conducting fire drills in all of its facilities (owned, leased, and courts).
- Risk Management has done a good job of monitoring the performance of workers compensation claims processing by a contractor.
- Risk Management needs to develop better methods of acquiring and retaining Managing for Results data.

Overall, we found Risk Management is effectively conducting its risk management and loss prevention programs.

We have attached our report package and Risk Management's response, which we have reviewed with the department's director and managers. We appreciate their excellent cooperation. If you have questions or wish to discuss items presented in this report, please contact Eve Murillo at 506-7245.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate  
County Auditor

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# Executive Summary

## **Fire Drill Compliance (Page 7)**

Until recently, fire drills had not been conducted in some high-rise County facilities for several years. Unforeseen problems could have existed and employee safety could have been jeopardized because fire drills were not conducted. Risk Management's Safety Division should strengthen controls in this area.

## **Contracted Claims Processing (Page 9)**

We commend Risk Management for monitoring the performance of workers compensation processing by a contractor and for taking corrective action as necessary. Although there are several opportunities for improvement, overall, the current contractor is handling claims processing well. Consistent monitoring of this type should result in minimizing County workers compensation costs.

## **Workers Compensation (Page 10)**

Our review of workers compensation costs and trends did not disclose any significant weaknesses or problems. Workers compensation costs have decreased in the past three years. Our benchmarking comparisons with six similar counties showed our costs as being the lowest.

## **Contracts (Page 12)**

Our tests of contract procurement, performance and invoice payment did not disclose any significant weaknesses or problems.

## **MfR Performance Measures (Page 13)**

Risk Management needs to develop better methods of acquiring and retaining measurement data. Inaccurate and inadequately documented performance measure data can negatively impact management's ability to make informed decisions related to accomplishing Risk Management's goals and improving operations. Risk Management had, prior to this audit, recognized these problems and is currently re-evaluating the validity of all performance measure definitions and calculation methods.

# Introduction

## Background

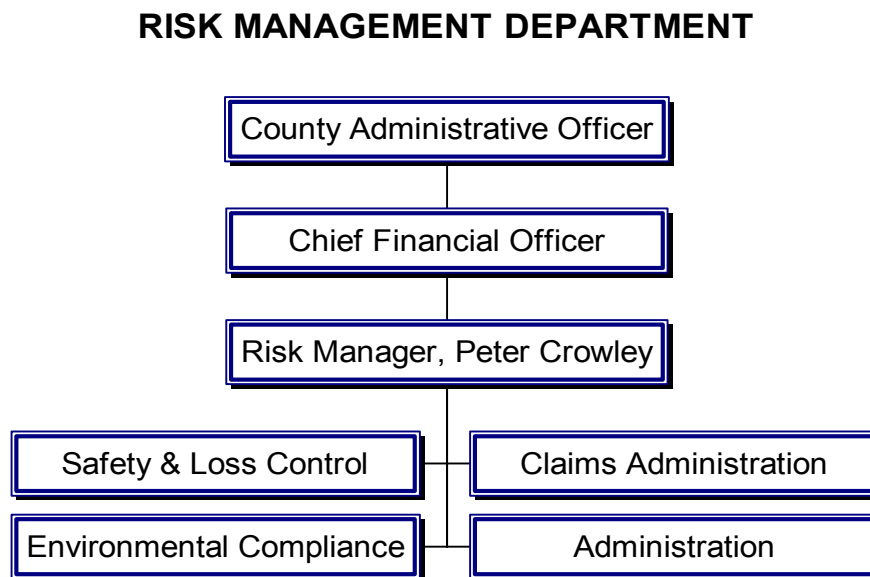
Maricopa County created its Risk Management Department in 1981 to administer the County's self-insurance trust fund. State statutes authorize counties to establish a self-insurance program to fund employee benefits, pay for property loss or lawsuit claims, and to conduct loss prevention consultation. The fund trustees are appointed by the County Board of Supervisors and County Administrative Officer.

## Mission

Risk Management's mission is to provide loss prevention and control, and to manage insurance and claims services for Maricopa County government in order to reduce or eliminate County losses.

## Organizational Structure

The County authorized nineteen FY02-03 Risk Management positions. The following chart shows Risk Management's organizational structure.



## Operating Budget and Fund Deficit

Risk Management (Millions)	FY 01	FY 02	Adopted FY03
Revenues	\$20.6	\$20.3	\$24.5
Expenses	<u>\$16.3</u>	<u>\$19.5</u>	<u>\$23.4</u>
Net Increase	<u>\$ 4.3</u>	<u>\$ 0.8</u>	<u>\$ 1.1</u>
Fund Deficit	(\$ 18.8)	(\$18.0)	(\$16.9)

Department expenses increased due to insurance premium increases. Premium increases reflected in the current year budget are attributed in part to an emerging hard insurance market, exacerbated by industry losses associated with the September 11th attack and with the slowing economy. The insurance policies that Risk Management renews each year are more expensive, with higher self-insured retention and lower coverage limits. As an internal service fund, Risk Management charges user departments to cover its expenses. The trend is for continued increases in insurance premiums.

The equity of Maricopa County's Risk Management Self-Insured Trust Fund decreased from \$13.5 million in July 1993 to a negative \$23.3 million in 1998. A new funding plan was initiated in FY 1999 that required a full allocation of charges to user departments equal to operating expenses, paid losses, and claims related expenses. Risk Management has followed this funding plan and has reduced its fund deficit in each successive year.

As long as the County General Fund contains reserves sufficient to cover the trust fund's negative equity, County assets do not appear to be at risk. If County assets become exposed to risk, the situation would be identified by the Auditor General as a reportable condition requiring corrective action, since the Auditor General performs an annual audit of the trust fund's financial statements.

## Program Operations

Safety and Loss Control Division: Safety and Loss Control focuses on countywide safety management strategies to eliminate workplace accidents and injuries and to reduce accidents that injure third parties or damage their properties. Safety also works to identify and educate the County about OSHA (Occupational Safety and Health Administration) compliance requirements.

Claims Administration: The Claims Division handles all claims made against the County. Claims are reviewed on their merits and either paid or denied. Claims that involve litigation are assigned to either the County Attorney's Office or outside counsel. The Division works with legal counsel to obtain the most favorable outcome possible for the County. The Claims Division also works with Human Resources to oversee the adjustment of workers compensation claims by a third party administrator.



Environmental Compliance: The Environmental Division conducts investigations and initiates action concerning environmental liabilities found within County departments, facilities, properties, and operations. The Division works to remediate and reduce environmental liability costs.

### **Scope and Methodology**

The objectives of this audit were to determine if Risk Management:

- Executes its contracts in compliance with Arizona Revised Statutes and County Procurement Code
- Maintains programs and operations that effectively reduce liability risk to Maricopa County
- Compiles and reports reliable MfR performance information
- Safeguards Maricopa County assets.

This audit was performed in accordance with Government Auditing Standards.

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# Department Reported Accomplishments

**Risk Management has reported the following information for inclusion in this report.**

## **Major FY00-01 Risk Management Accomplishments**

- Completed departmental strategic plan and performance measures in accordance with the Managing for Results (MfR) initiative.
- Prepared and submitted loss runs to department directors for quarterly review.
- Developed a litigation strategy with County Attorney, including attorney selection, periodic review, timely communication and documentation flow and case evaluation.
- Submitted all qualified new claims to the excess carrier on a timely basis.
- Provided at least once per quarter training to managers and supervisors. These classes included Supervisors Training in Accident Reduction Techniques (START), Safety Motivation, and the Supervisors Development Training Program.
- Provided monthly reports to the County Administrative Officer and department directors detailing injury and vehicle accidents.
- Conducted environmental assessments for County facilities to identify and remedy potential liabilities and regulation compliance. (Recovered for County \$84,266 on environmental claims against a state assurance fund).

## **Major FY01-02 Risk Management accomplishments**

- Conducted a countywide three-day safety fair, with 600 employees participating, and an Equipment and Truck Rodeo event testing operator skills and knowledge of equipment operations.
- Completed the Loss Prevention Committee presentation outlining a safety and loss prevention plan for Maricopa County.
- Established a comprehensive safety management system within the Sheriff's Office using the START (Supervisors Training in Accident Reduction Techniques) process as the basis for managing safety internally.
- Established an Emergency Evacuation Policy to ensure safe egress from County high-rise facilities during emergency evacuations, and trained over 200 floor wardens in the proper evacuation procedure.
- Reduced workers' compensation claims 11.1% from FY00-01 to FY01-02 despite an increase in number of budgeted positions of 2.5% over this period.
- Recovered \$226,692 from "at fault" parties that caused damage to County property.
- Hired and managed a company to conduct reviews of charges received from health providers on workers' compensation claims, resulting in savings to the County of \$95,776.00.

# Issue 1 Fire Drill Compliance

## Summary

Until recently, fire drills had not been conducted in some high-rise County facilities for several years. Unforeseen problems could have existed and employee safety could have been jeopardized because fire drills were not conducted. Risk Management's Safety Division should strengthen controls in this area.

## Requirements

Maricopa County's administrative policy for emergency evacuation drills, adopted in January 2002, states that drills shall be conducted as follows:

### Emergency Evacuation Drills

Number of Building Floors	Number of Fire Drills
Single story	Recommended once per year
2 or 3	At least twice per year
4 or more	At least three time per year

According to the policy, large scale evacuation drills of the Downtown complex, Durango complex, and the Southeast Mesa complex shall be jointly coordinated and scheduled by the Sheriff's Office, Risk Management Safety Division, and other county departments. Risk Management initiated this policy.

The policy also states that elected officials or department directors who manage specialized facilities such as hospitals, jails, and courts should refer to the applicable fire code and conduct drills accordingly.

Prior to January 2002, the emergency evacuation drill policy stated that evacuation drills shall be conducted as necessary, but not less than once every six months, to assure that personnel are familiar with the evacuation plan, routes of exit, and assembly areas. This policy was issued in November 1991 and was initiated by the Department of Facilities Management. It did not, however, specify who was assigned oversight over emergency drill activities.

## Review Results

Over the past year and a half, the Safety Division has been actively updating the County's evacuation policies, training floor wardens for emergency evacuations and fire extinguisher use, and reviewing facility evacuation plans for County owned buildings and high-rise lease facilities.

However, we found that prior to October 2002, fire drills had not been conducted for many years (at least six years) in the 301 W. Jefferson County Administration Building and the Luhrs building, a leased office facility at 13 W. Jefferson. In other leased offices, however, such as the 411 N.

Central Avenue and 1001 N. Central Avenue building, fire drills are regularly conducted throughout the year.

Although the County administrative policy specifies coordination among various agencies, the policy does not assign specific responsibility for ensuring compliance with the evacuation drill policy. Further complications exist because landlords in leased facilities are responsible for conducting drills in their own buildings and a separate security force is responsible for emergency evacuation drills in all court facilities. Accordingly, the potential for miscommunication and inadequate readiness is increased.

## **Recommendation**

County administration should appoint a chief emergency evacuation coordinator who will be responsible for planning, coordinating and evaluating emergency evacuation drills. Because there are mutually dependent roles and overlapping organizational authorities, such a chief coordinator should be situated for countywide leadership and persuasion. Risk Management's mission and countywide scope of operations makes it a potential candidate for this role. In addition, Risk Management has a stake in the safety of employees in leased office facilities.

Specifically, Maricopa County should:

- A.** Require lease contracts to include provisions for monitored mandatory compliance with fire drill regulations.
- B.** Add to the administrative policies a chief emergency evacuation coordinator who will take ownership of fire drill compliance and routinely report problems and issues to the County's Chief Administrative Officer.

# Issue 2 Contracted Claims Processing

## Summary

We commend Risk Management for monitoring the performance of workers compensation processing by a contractor and for taking corrective action as necessary. Although there are several opportunities for improvement, overall, the current contractor is handling claims processing well. Consistent monitoring of this type should result in minimizing County workers compensation costs.

## Requirements

The October 2001 contract provides performance criteria for processing workers compensation claims. These requirements include criteria encompassing contractor timeliness, work review, witness documentation, medical examinations, subrogation, setting reserves and effective settlement strategies.

## Review Results

An independent audit of the previous contractor in FY01 disclosed numerous performance problems. Based upon this audit, Risk Management replaced the poorly performing contractor with the current contractor.

We engaged a consulting firm to perform a limited review of claims processed by the current contractor in order to determine if contract performance criteria are adequately met. Overall, the reviewers did not note any major issues and determined that the files are well organized. However, their review did disclose an instance where the contractor paid a duplicate \$168 medical claim and two instances where existing documentation did not support reserves levels. In one instance, documentation did not exist to support the setting of an initial reserve of \$50,000 or greater, and in another instance, documentation did not support subsequent increases to reserves for \$50,000 or greater.

Subsequent to our review, Risk Management conducted its own regularly scheduled contractor review. Although Risk Management identified six areas for improvement, Risk Management concluded that overall, the claims were well handled and that money was being spent appropriately. These reviews are important for identifying and acting upon performance issues for minimizing workers compensation costs.

## Recommendation

We commend Risk Management for monitoring contractor performance and taking necessary corrective action in cases where contractor performance is unsatisfactory. We recommend that Risk Management continue to regularly and frequently monitor the contractor's performance to ensure high performance standards. Such an approach will minimize workers compensation costs.

# Issue 3 Workers Compensation

## Summary

Our review of workers compensation costs and trends did not disclose any significant weaknesses or problems. Workers compensation costs have decreased in the past three years. Our benchmarking comparisons with six similar counties showed our costs as being the lowest.

## Approach

We trended workers compensation costs over time in order to identify any abnormalities. We also contacted six western counties and Fairfax County for FY 2001 workers' compensation information to compare with our workers compensation cost trends in order to assess best practices.

## Review Results

Trend analysis and benchmark comparisons based upon recent data showed that Maricopa County ranks as one of the two lowest in number and the lowest in dollars (per employee) paid for workers compensation claims:

### **Benchmark Comparisons FY01 Workers Compensation Claims Paid through June 30, 2002**

<b>County</b>	<b>Employees</b>	<b>Claims</b>	<b>Paid</b>	<b>Paid per Employee</b>
Maricopa County	15,188	880	\$1,892,091	\$125
Multnomah	6,949	319	\$941,612	\$136
Fairfax	11,408	1,215	\$2,433,889	\$213
Orange	18,212	1,440	\$7,170,921	\$394
Clark	10,702	1,087	\$4,824,883	\$451
San Diego	18,200	1,933	\$8,221,556	\$452
King	14,000	1,466	\$6,603,100	\$472

Further analysis indicates Maricopa County workers compensation claims and expenditures have decreased between FY99 and FY01. See table on the following page.

## Maricopa County Worker's Compensation Claims and Expenditures

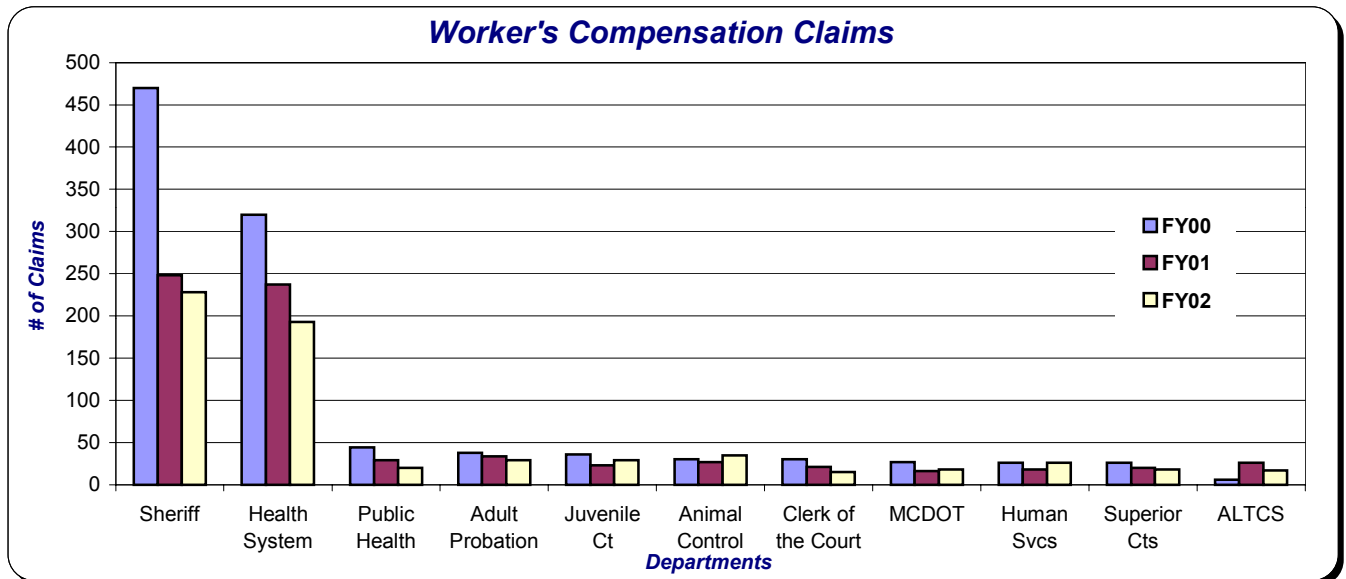
	FY99	FY00	FY01
<b># of Employees</b>	12,963	13,099	15,188
<b># of Claims</b>	946	1,225	880
<b>\$ Paid</b>	<b>\$2,928,151</b>	<b>\$2,569,794</b>	<b>\$1,892,091</b>

Employee Data Source: Business Strategies

Some of the reduction in injury incident rates was accomplished through the development of the Safety Management System. The system uses accountability as its model for managing the safety environment. Safety conducts and provides:

- Quarterly loss control analysis on each department (used in Managing for Results)
- Monthly safety reports that analyzes types and trends of accidents for appointed departments and Maricopa County Sheriff's department
- Monthly meetings with key directors of Public Works, Community Services, Health Services, and Sheriff's Office to review their accident and loss potential.

The eleven departments with the largest number of claims for the last three years are shown in the chart below.



### Recommendation

None, for information only.



# Issue 4 Contracts

## Summary

Our tests of contract procurement, performance and invoice payment did not disclose any significant weaknesses or problems.

## Requirements

County procurement codes, policies, and procedures require that contracts for services be awarded under fair and uniform public bidding processes. Contract files should contain all necessary information to document compliance with contract terms and legal form.

Internal control over contract monitoring and invoice payments is also required, including:

- Receive invoices in a central location
- Claim all allowable exemptions from excise and other taxes
- Compare invoice prices with contract terms
- Check accuracy of calculations.
- Check authorized approvals.

## Review Results

Our tests did not disclose significant errors or control findings.

## Recommendation

None, for information only.

# Issue 5 MFR Performance Measures

## Summary

Risk Management needs to develop better methods of acquiring and retaining measurement data. Inaccurate and inadequately documented performance measure data can negatively impact management's ability to make informed decisions related to accomplishing Risk Management's goals and improving operations. Risk Management had, prior to this audit, recognized these problems and is currently re-evaluating the validity of all performance measure definitions and calculation methods.

## County Policy Requirements

Maricopa County Board of Supervisors Policy B6001 (4.D Evaluating Results) requires the Internal Audit Department to review County departments' strategic plans and performance measures. The policy also requires that a report of the results be issued.

As part of this audit we performed certification reviews of ten Risk Management Key Results Measures. The following information defines the results categories that are used in the certification process.

## Definitions

Certified: The reported performance measurement is accurate (+/-5%) and adequate procedures are in place for collecting/reporting performance data.

Certified with Qualifications: The reported performance measurement is accurate (+/-5%) and adequate procedures are not in place for collecting and reporting performance data.

Factors Prevented Certification: Actual performance measurement data could not be verified due to inadequate procedures or insufficient documentation. This rating is used when there is a deviation from the department's definition, preventing the auditor from accurately determining the performance measure result.

Inaccurate: Actual performance is not within 5% of reported performance and, or the error rate of tested documents is greater than 5%.

Not Applicable: Performance measurement data is not yet available.

## Review Results

**Key Measure #1:** Percent increase of collections (subrogation) of available funds.

When Risk Management receives an insurance claim it is reviewed to see if the amount can be subrogated (paid for by the “at fault” party). If so, the “at fault” party is sent a demand letter for amount claimed including the “loss-of-use” amount and the “appraisal fee”. The amount paid is then compared to the amount demanded.

**Results:** Factors Prevented Certification

We attempted to test the summary measurement data to determine the accuracy of the measure. The following table shows data reported by the department compared to our re-calculated figures as determined by review of existing support documentation. Documentation did not exist for first and second quarter FY02 reported data and therefore we were unable to review the reported results.

Measure #1	Qtr 1	Qtr 2	Qtr 3	Qtr 4	FY02 Total
Reported #s	10%	12%	20%	-26.5%	
Actual #s	Unknown	Unknown	Unknown	-26.3%	Unknown

This measure is being changed to a comparison over three years. Currently there is no clear method of data collection and reporting. Once the measure is re-defined procedures will be established for the collection and reporting of performance data.

**Key Measure #2:** Percent maximum of litigation costs vs. claims costs annually.

This measure was designed to demonstrate the efficiency of the Claims Division’s handling and disposition of initial claims by comparing the amount of total claims with the amount of total claims involving litigation. The less litigation there is the more efficient the Claims Division is.

**Results:** Factors Prevented Certification

We attempted to test the summary measurement data to determine the accuracy of the measure. The following table shows data reported by the department compared to our re-calculated figures as determined by a review of existing support documentation. There was no documentation for first, second and third quarter FY02 reported data and we were therefore unable to review the reported results. Since this is an annual measure, personnel now responsible for this measure did

not report measurement data in the fourth quarter. However, we were able to document and replicate the reported annual percentage.

The department states that this measure will be deleted in FY03. Risk Management does not consider this a valid measure of performance.

Measure #2	Qtr 1	Qtr 2	Qtr 3	Qtr 4	FY02 Total
Reported #s	31%	30%	30%		93%
Actual #s	Unknown	Unknown	Unknown	Unknown	93%

**Key Measure #3:** Percent maximum of pay out against demand annually.

This measure compares the demand for settlement to the actual amount paid.

**Results:** Factors prevented certification.

Data for the percentages reported in the first and second quarter FY02 was missing. Newly assigned departmental personnel could not determine how the reported percentages were calculated. These personnel also indicated their awareness that the annual reported percentage was incorrect and that it should have been reported as 12%.

Measure #3	Qtr 1	Qtr 2	Qtr 3	Qtr 4	FY02 Total
Reported #s	31%	28%	1%	5%	16.25%
Actual #s	Unknown	Unknown	1%	5%	12%

**Key Measure #4:** Percent reduction in losses where claims consultations have occurred.

The intent of this measure was to document the effect of claims consultations with departments' loss experience.

**Results:** Factors prevented certification.

We were unable to validate any of the reported information due to lack of documentation. This measure will be deleted in FY03 since the department questions its validity. Department personnel state that consultations do not necessarily influence loss experience.

Measure #4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	FY02 Total
Reported #s	10%	10%	27%		
Actual #s	Unknown	Unknown	Unknown	Unknown	Unknown

**Key Measure #5:** Percent reduction in losses where safety consults have occurred.

Compares # of losses where safety consultations have occurred to losses where there have been no such safety consultations.

**Results:** Factors prevented certification.

We were unable to calculate quarterly values for this measure. Documentation for the second Quarter reported results do not exist. Risk Management states that this measure, as well as Key Measure #6, is going to be significantly modified in FY03. Both are considered by Risk Management to be invalid measures that do not indicate the effectiveness of safety or training consultations. Risk Management suggests that it needs to have at least a three-year experience to determine correlation. Risk Management stated that it is implementing a county-wide safety training program, integrated into the management culture of the County (for example there is a “safety consciousness” rating section on the new employee evaluation form). Risk Management said they need at least three years of experience with the program to determine effectiveness. The newly defined measure will report correlation between safety training and reduced loss percentages on the basis of a three-year average comparison.

Measure #5	Qtr 1	Qtr 2	Qtr 3	Qtr 4	FY02 Total
Reported #s		12%			
Actual #s	Unknown	Unknown	Unknown	Unknown	Unknown

**Key Measure #6:** Percent reduction in losses where training has occurred.

Compares # of losses where training has occurred to losses where there have been no such training.

**Results:** Factors prevented certification.

(See comments under Key Measure #5.)

Measure #6	Qtr 1	Qtr 2	Qtr 3	Qtr 4	FY02 Total
Reported #s		29%			
Actual #s	Unknown	Unknown	Unknown	Unknown	Unknown

**Key Measure #7:** Percent reduction in environmental liability exposures.

This measure was designed to indicate whether environmental issues were being recognized and addressed as potential liabilities.

**Results:** Certified with Qualifications.

This measure is calculated once a year in the first quarter. The department erroneously indicated a negative 20% in the quarter, however, they corrected the input error in the EBC “Quarterly Comments” section by indicating that this should have been an increase of 20%. Potential liability increased to \$182 million over \$151 million (20%) in the prior year.

Measure #7	Qtr 1	Qtr 2	Qtr 3	Qtr 4	FY02 Total
Reported #s	-20%				
Actual #s	+20%				

**Key Measure #8:** Percent of maximum deviation from trust funding plan.

This measure indicates how accurate the fund plan was at its inception compared to actual charges.

**Results:** Certified with Qualifications.

Reported performance for this measure is accurate, however, continued accuracy needs to be assured by developing procedures that document the data collection and reporting process.

Measure #8	Qtr 1	Qtr 2	Qtr 3	Qtr 4	FY02 Total
Reported #s					19%
Actual #s					19%

**Key Measure #9:** Percent decrease in adverse actions where County contracts were reviewed.

This measure attempts to compare claims and adverse actions in departments where County contracts were reviewed to claims and adverse actions in departments where contracts were not reviewed.

**Results:** Factors prevented certification.

Risk Management states that the 100% entries are erroneous; these should have been reported as 0s. We were unable to re-calculate any reported measurement data because of lack of source data. One problem associated with this measure is that Risk Management does not review all contracts. Risk Management has stated that the reported results were based upon the review of “some” contracts. This measure will be deleted in FY03.

Measure #9	Qtr 1	Qtr 2	Qtr 3	Qtr 4	FY02 Total
Reported #s	100%	100%	100%	100%	100%
Actual #s	Unknown	Unknown	Unknown	Unknown	Unknown

**Key Measure #10:** Percent of users who report documents helped them make better decisions.

This measure was designed to show how user departments used Risk Management input to help eliminate or reduce risk or losses.

**Results:** Not applicable.

A survey instrument has not yet been developed for this measure. Risk Management has indicated that they are re-thinking this measure. Risk Management department personnel do not think that reports sent from Risk Management have any influence on the receiving department's loss experience.

Measure #10	Qtr 1	Qtr 2	Qtr 3	Qtr 4	FY02 Total
Reported #s					
Actual #s	N/A	N/A	N/A	N/A	N/A

### Recommendation

Risk Management should:

- A. Re-examine its entire strategic plan since there has been a significant change in departmental management. Key result measures will be obvious from quality program and activity purpose statements.
- B. Develop and implement written procedures for collecting and reporting key performance measurement data once Risk Management has revised its strategic plan and revised Key Results Measures. Risk Management currently has draft procedures for some measures, however, we suggest they wait until all measure definitions and calculation methods are finalized before proceeding.
- C. Adequately train backup personnel in procedures for collecting and reporting performance measurement information. This will enhance consistency in measurement data collection and reporting.



# Department Response

## Risk Management January 30, 2003

### **Issue #1: Fire Drill Compliance**

Until recently, fire drills had not been conducted in some high-rise County facilities for many years. Unforeseen problems could have existed and employee safety could have been jeopardized because fire drills were not conducted. Risk Management's Safety Division should strengthen controls in this area.

**Response:** Concur. In the past there seemed to have been some confusion as to the responsible party or department to hold these drills. Also, there may have been a lack of urgency to interrupt work schedules for such drills. Whatever the reasons for the long delay in holding such drills, the sobering events of September 11 clearly established the need for such emergency preparedness. It should be noted that Risk Management's Safety Division had recognized this problem and immediately began efforts to correct it. Training floor wardens and holding fire drills take time, but this issue has been corrected with fire drills held at the County's administration building this past October 2002.

**Recommendation:** The County administration should appoint a chief emergency evacuation coordinator who will be responsible for planning, coordinating and evaluating emergency evacuation drills. Because there are mutually dependent roles and overlapping organizational authorities, such a chief coordinator should be situated for countywide leadership and persuasion. Risk Management's mission and countywide scope of operations makes it a potential candidate for this role. In addition, Risk Management has a stake in the safety of employees in leased office facilities.

Specifically, Maricopa County should:

- A. Require lease contracts to include provisions for monitored mandatory compliance with fire drill regulations.
- B. Add to the administrative policies a chief emergency evacuation coordinator who will take ownership of fire drill compliance and routinely report problems and issues to the County's Chief Administrative Officer.

**Response:** Concur. The Risk Management, Safety Division is in the best position, and has the expertise on staff to take the lead role in scheduling and following through on these drills. It should be noted that the cooperation of various departments, who have staff in any building under a drill, as well as Protective Services, is critical to holding such a drill. It is suggested that the Manager of the Safety Division of Risk Management be designated as Chief Emergency Evacuation Coordinator.

**Target Completion Date:** April 1, 2003.

Benefits/Costs: County employees will be drilled and prepared for emergency evacuation of the building in which they work. Potentially, lives will be saved.

## **Issue #2:            Contracted Claims Processing**

Risk Management uses an outside contractor to process workers compensation claims. Each year Risk Management hires an independent auditor or conducts an in-house audit to review the contractor's work. In FY01, the auditor reported poor contractor performance. In October 2001, subsequent to the audit finding, Risk Management terminated the contract and engaged the current contractor.

Recently, we used an outside audit firm to review the current contractor. In addition, Risk Management conducted its own review of this contractor. Both reviews concluded that there are several areas for improvement, but that overall, the current contractor is handling claims processing well. We commend Risk Management for monitoring the contractor's performance and taking corrective action as necessary. Consistent monitoring of this type should result in minimizing County workers compensation costs.

Recommendation: We commend Risk Management for monitoring contractor performance and taking necessary corrective action in cases where contractor performance is unsatisfactory. We recommend that Risk Management continue to regularly and frequently monitor the contractor's performance to ensure high performance standards. Such an approach will minimize workers compensation costs.

Response: Concur. An annual full audit of the Third Party Administrators' work has been established, as well as quarterly mini audits. In addition, using our compatible software program for documenting workers compensation files, the Risk Management Claims Division can review individual files on a "need be", even daily basis.

Target Completion Date: January 1, 2003.

Benefits/Costs: Handling of workers compensation cases will be reviewed on a regular and frequent basis. In this way mistakes as to payments on any cases will be noted early on and stopped before significant amounts have been paid out.

## **Issue #3:            Workers Compensation**

Our review of workers compensation costs and trends did not disclose any significant weaknesses or problems. Workers compensation costs have decreased in the past three years. Our benchmarking comparisons with six similar counties showed our costs as being the lowest.

Response: Concur.

Recommendation: None, for information only.

#### **Issue#4:**                    **Contracts**

Our tests of contract procurement, performance and invoice payment did not disclose any significant weaknesses or problems.

Response: Concur.

Recommendation: None, for information only.

#### **Issue#5:**                    **MFR Performance Measures**

Our review of ten Risk Management Key Results Measures, developed for the Managing for Results (MfR) program identified several areas for improvement. Risk Management has undergone significant changes in key management personnel, which has affected the quality of data reported in the 1<sup>st</sup> and 2<sup>nd</sup> Quarters of FY02. Lack of procedural controls has aggravated the performance reporting problem caused by changes in personnel. Risk Management needs to develop better methods of acquiring and retaining measurement data. Inaccurate and inadequately documented performance measure data can negatively impact management's ability to make informed decisions related to accomplishing Risk Management's goals and improving operations. Risk Management is currently re-evaluating the validity of all performance measure definitions and calculation methods.

Response: Concur. However, changes in key management personnel and lack of procedural controls were not the problems with MfR results. The main reason for performance reporting problems is that certain Programs, Activities, and Key Measures did not coincide with the work of this department. We have presented to the MfR committee substantial revisions to these areas, which we believe will be more accurately tracked and more meaningful as a reflection of our operation.

Recommendation:

Risk Management should:

- A. Re-examine its entire strategic plan since there has been a significant change in departmental management. Key result measures will be obvious from quality program and activity purpose statements.
- B. Develop and implement written procedures for collecting and reporting key performance measurement data once Risk Management has revised its strategic plan and revised Key Results Measures. Risk Management currently has draft procedures for some measures, however, we suggest they wait until all measure definitions and calculation methods are finalized before proceeding.

- C. Adequately train backup personnel in procedures for collecting and reporting performance measurement information. This will enhance consistency in measurement data collection and reporting.

**Target Completion Date:** April 1, 2003

**Benefits/Costs:** The main benefit will be a meaningful reflection of Risk Management's function within the County. Cost-wise, departments will have a clearer picture of their liability exposure and costs.

**Approved By :**

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**Department Head**

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**Date**

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**Chief Financial Officer**

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**Date**

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**County Administrative Officer**

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**Date**